

WEALTH TRANSFER PLANNING
Client Guide



Leveraged Credit Shelter Trust

What Is a Leveraged Credit Shelter Trust?

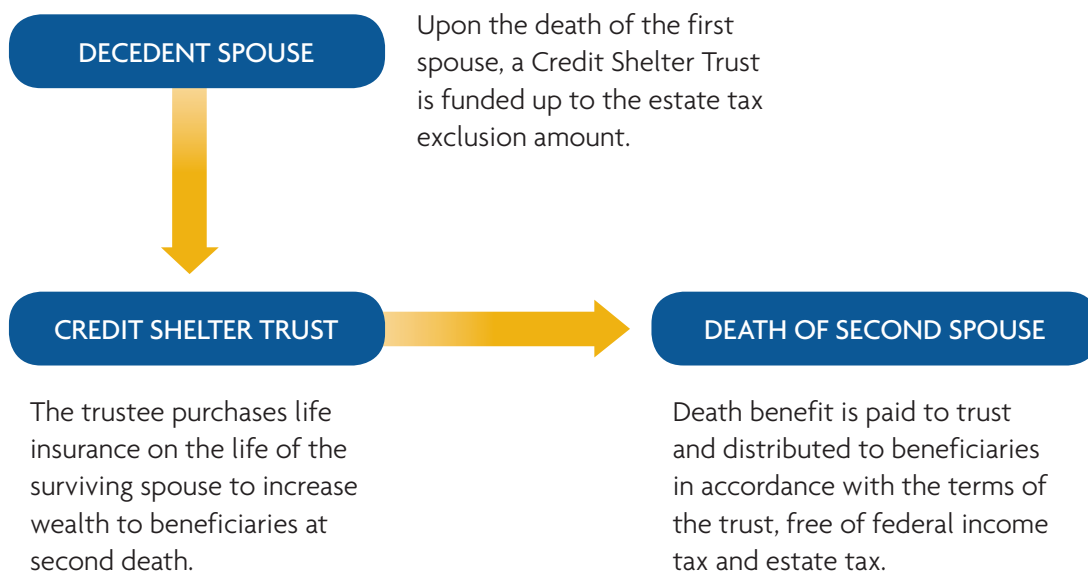
A Leveraged Credit Shelter Trust (CST) is a wealth transfer planning technique that allows clients to take the existing credit shelter trust assets, and reposition them into life insurance to maximize the amount of wealth available to heirs at the surviving spouse's death. The CST provides a solid base for effective estate plans. If the trust is properly drafted, the assets it holds will not be subject to estate tax at either spouse's death.

Funding the Credit Shelter Trust with life insurance provides an effective way for individuals to maximize tax-deferred investment growth and income and estate tax benefits. Properly drafted, the credit shelter trust funded with life insurance can leverage all or part of the trust assets to create a larger death benefit that will be income tax-free and estate tax-free to trust beneficiaries.

How It Works

The Credit Shelter Trust (also known as the "B trust" or "family trust") is funded upon the first death of the husband or wife, using that spouse's available estate tax exclusion amount, which is \$3,500,000¹ in 2009. Upon the first death, the estate is divided into two parts. The Credit Shelter Trust is funded up to the estate tax exclusion amount in the year of death (assuming no lifetime taxable gifts were made). The balance of the decedent's estate is typically transferred to the surviving spouse, either outright or in trust, using the unlimited marital deduction.

Using all or a portion of the assets in the Credit Shelter Trust to purchase life insurance on the surviving spouse further increases wealth to the heirs. Upon the second death, the assets of the Credit Shelter Trust will not be included in either spouse's estate, and the remaining assets will be distributed estate tax-free to the beneficiaries.



1. Under current law, the estate tax is repealed in 2010; thereafter, the applicable exclusion is \$1,000,000 per person, subject to change.

Funding a Credit Shelter Trust with Life Insurance

- Provides an opportunity for tax-deferred growth inside the life insurance policy
- The life insurance death benefit can significantly enhance the value of the Credit Shelter Trust
- Select from a variety of life insurance products and death benefit guarantees
- Death benefits are paid income tax-free and estate tax-free to trust beneficiaries²
- Life insurance should be excluded from an exercise of a power of appointment to avoid having the death benefit taxed in the surviving spouse's estate
- To avoid incidents of ownership in the life insurance policy, the insured spouse should not be a sole trustee or co-trustee

Summary

The Credit Shelter Trust is an effective wealth transfer strategy that leverages the estate tax exclusion amount. At the first death, the decedent's estate tax exclusion is used to fund the Credit Shelter Trust, providing liquidity to purchase a life insurance policy on the life of the surviving spouse for the benefit of the children. Growth on the principal is tax-deferred. At the second death, the death benefit is paid to the beneficiaries of the trust, income tax-free and estate tax-free.

For more information, please talk to your Sun Life Financial Representative today.

2. This assumes the trusts are properly drafted by an attorney familiar with trust, income and estate tax matters.

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